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## THEORIES OF DISTRIBUTION

### ROUND TABLE DISCUSSION

Leader, SIMON N. PATTEN

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S. N. PATTEN: Theories of distribution have been treated as a part of static economics. No attention has been paid to the influence evolution has had in changing the nature of the distributive struggle. Instead of having shares fixed by natural law the pressure of social struggle moves the surplus from share to share, and finally places it in the hands of the consumer. The economist should describe this process instead of seeking natural laws to determine the mode of distribution. Two problems thus present themselves for discussion:

1. Does the present theory of distribution help materially in the solution of practical problems? If so, what problems?

2. Is there one social surplus in which all classes participate, or are there funds set aside for special classes, which funds cannot be appropriated by other classes? One view is that of class struggle, the other is that of class equilibrium.

The latter problem should be discussed first and is the more important. To do this the reasoning of the old static theory should be contrasted with the newer evolutionary view. In a primitive society the formula of distribution is  $\frac{P}{N} = W$ , that is,

the total production of an undifferentiated primitive society divided by the number of workmen gives the normal wage of each worker. When evolution begins the product of evolution and the social surplus are the same sum and vary together. A new formula for distribution is now necessary, which is  $\frac{P-S}{N} = W$ . Trans-

posed, this formula becomes  $NW + S = P$ . This means that the social surplus is not distributed as wages but becomes the income of special classes, and is distributed by other laws.

In contrast to this formula the traditional formula of distribution is  $R + I + W = P$ , that is, the sum of rent, interest, and wages equals the total produce of industry. The evolutionary formula assumes that the social surplus is one fund distributed by social laws, while the static view assumes that the surplus is di-

vided into three fixed funds, each distributed by its own natural law. The issue on the one hand is between a unified and a divided social surplus, and on the other, between the power of natural and social law. The measure of social law is in this case budgetary pressure. The real problem in distribution is thus shifted from the classes into which nature is assumed to divide producers, to the forces that control the standards of living which the various classes impose on its members.

B. M. ANDERSON, JR.: I have been over Professor Patten's *Reconstruction of Economic Theory* pretty carefully three or four times. There are a host of interesting things in it, but I wish to confine myself to two or three points. Professor Patten's criticism of the categories of rent, wages, interest, and profits seems to rest on unusual uses of the terms. Thus, he seems on pages 36 and 37 to make wages the result of *toil*, and toil seems to mean *pain*. I quote: "If a dynamic economy should continue, interest and wages would tend to disappear, and the whole income of society would be distributed as rent or profits. Work would be a pleasure, and the providing for the future a joy. Of course this is Utopian, but it represents tendencies." And on page 39: "Machine tending is not toil unless the hours of work are abnormally extended." The machine workers, he thinks, should be conceived as getting rent rather than wages, that is, rent of ability. Numerous other passages suggest these unusual meanings of the terms. Now I do not question Professor Patten's right to define the terms in any way he pleases. But I do feel that his criticism of the familiar categories, when he gives them unfamiliar meanings, is beside the mark. Wages are not usually defined as that which is paid for pain. Wages are commonly conceived as the share going to laborers, whether their labor is painful or not. It may be well to think of rent as a surplus of pleasure over pain for certain purposes, but rent in common economic usage means the price paid for the use of land. Now as long as there are big classes of men who, not owning the instruments of production, work under the direction of others and receive a stipulated income therefor, it seems proper to me to group them together as laborers, and to call their income wages. If you wish to make further distinctions within the group, well and good. I think Professor Patten's emphasis on the difference between skilled, organized labor, and unskilled, unorganized labor, is much to the point. But

really, modern differentiation in industry, and modern corporate organization, with its leases, stocks, bonds, and salaried and wage-earning employees, seem to me to make the old categories of wages, interest, profits, and rent clearer and sharper and more applicable at present than they were fifty years ago. Subdivisions in them are needed, and perhaps a category or two in addition. Further, across this old classification, we may shoot the distinction of monopoly and competition, or make other cross-classifications. But I think it would only lead to confusion to take certain classes of income out of the wages class, and assimilate them to profits or rent.

There is, of course, nothing sacred about these categories. They are the prevailing *legal* categories. They are peculiar to the present legal and social order. We have no right to identify them, *by definition*, with the product economically attributable to the several factors of production. Such an identification, if made at all, should be the result of a theory, rather than its starting point.

Professor Patten's chief reason for objecting to these categories seems to be that he has a new explanation, or set of explanations, for distribution, and he wishes to make the categories on the basis of his theories of explanation. Now this seems to me a line of procedure which will make agreement on categories needlessly difficult. We can agree on our *problems* much more easily than we can agree on their *solutions*. We should choose our categories in terms of the problem phenomena, therefore, rather than in terms of the *explanation* phenomena. It is, moreover, a hopeless task to try to separate out a special type of income for each separate cause which affects distribution, and to make a category of distribution for each different cause. In doing this you neither explain your type of income completely, nor do you exhaust your account of the effects of the cause in question. For several causes will affect each type of income, and each cause will affect more than one type of income. Only by basing the categories on the problem, that is, the concrete sort of income actually received, can you get a manageable set of categories, and a useful set of categories.

But Professor Patten is raising some much more fundamental questions than those of terminology. He is raising the question of *causation*, and challenging the doctrines that make distribution depend on "natural law," or on the static price analysis. He would

introduce the elements of struggle, monopoly, legal changes, changes in education, in morals, in standards of consumption—a whole organic complex of vital factors. In this I am happy to range myself with Professor Patten as an economic insurgent. It is an absolute illusion, in my judgment, to hold with the Austrians that you can solve the problem of distribution by starting with utility, passing to value, and then, by an imputation process, going to distributive shares—the whole process a rectilinear chain of causation, and the whole causal force coming from that initial utility—that is, individual desires for economic goods, or, with those who try to combine English with Austrian economics, individual desires and aversions in connection with the consumption and production of economic goods. You can't even make a logically consistent scheme by this method. It gets into a circle at the outset. And you certainly can't make a scheme that corresponds with reality. Distribution is fundamentally *caused* by the legal, moral, and social standards, institutions, etc., concerned with property right, inheritance, contract, etc., in interaction with more distinctly economic factors. And fundamentally distribution lies *behind* the very values, supposed to be derived exclusively from utility, which are to be distributed.

However, I do not think that we are obliged, on that account, to follow Professor Patten in throwing overboard the static price theories of distribution. The natural law theories we will throw overboard. Distribution depends on social laws. But these static price theories need not imply natural law. They give us, not indeed a very fundamental causal account of the distributive process, but they do give us a significant cross section picture. Here is a great genetic process, in time, of struggling classes, ideals, institutions, continually readjusting themselves to changes in each other, and in interaction also with the economic environment and the development of economic technique. They never do reach a static equilibrium, but they are constantly effecting partial moving equilibria. A change in the tariff will reduce the earnings of the Woolen Trust, but it will not lessen the rate of interest on their capital, because through the capitalization process that capital value will be reduced till it again yields the prevailing interest. And so the static theory of interest still gives us a true picture, even though, in this case, a very superficial one. But it has to be superficial, in considerable measure, in order to be quantitative. What Professor Patten

offers is only qualitative as yet. To get quantitative measurement of the forces he names we must compare them with other forces; must, that is, see them in equilibrium with other forces; must, that is, turn to our static, cross-section picture. That the static theories have considered too few elements I should insist. That they have often been based on an erroneous value concept I should insist. But I think there is no occasion to throw them overboard, and that they supplement, rather than exclude, Professor Patten's genetic account. The net result seems to be that we have to thank Professor Patten for emphasizing factors that have been too much neglected, and that we shall have to do a lot of work before we get a theory which will adequately coördinate the factors which he mentions with those already recognized; but that the modern theories of distribution, at their best, are incomplete rather than wrong.

W. M. ADRIANCE: For one who has not had the privilege of intimate association with Professor Patten, there is a certain presumption in playing the rôle of critic of his views. To form a true judgment one must have a certain grasp of, and sympathy with, his original way of looking at things, and must be able to interpret his somewhat paradoxical forms of expression. If my remarks seem unfair, I trust that you will bear this in mind.

In the first place Professor Patten, in his recent monograph on the *Reconstruction of Economic Theory*, does not conform to certain criteria which he himself has given us. In his presidential address at Atlantic City he made a plea for the *intelligible* presentation of economic truth, to the end that the economist might exert a more real influence in the everyday world. He went so far as to say that we should all be journalists,—the reference being, no doubt, to a popular and intelligible way of writing. But this recent essay is anything but a popular and straightforward exposition. It seems needlessly involved, paradoxical, and obscure.

In the second place, certain commonplace matters are ingenuously presented as if they were novelties. The doctrine of evolution is not absolutely unknown to the present-day economist, as seems to be naïvely assumed. Nor is it a novel idea that present-day distribution is the resultant of a multiplicity of forces.

When, however, Professor Patten discovers in certain of these forces, such as the budgetary discrepancies illustrated on the blackboard, an explanation of the rising price level, he seems to

show a confusion of thought, which is widespread, no doubt, but which an economist should avoid. The rising price level is one thing: the rising cost of living is another. One involves a relation between money and the things which are bought with money: the other involves a relation between expenditure and income. Various forces may operate to increase expenditure relative to income, and maladjustments may of course occur at a time when prices expressed in money are falling or stationary. So that the budgetary discrepancies in which Professor Patten is interested cannot be accepted as an explanation of the rising price level.

My main criticism, however, is that Professor Patten is "reconstructing" the theory of fifty years or more ago. He calmly assumes that the "wage fund" theory is currently accepted, and that we believe today that society is divided into three classes, each receiving its income from a specific predetermined source. Apparently this "reconstruction" has been undertaken without any survey of what contemporary economic theory really is.

In this connection I would say a word in behalf of the school of thought to which my own allegiance is given. I shall call it the "subjective value" school, rather than the Austrian school, for the American followers of the Austrians differ from them in certain important particulars. We believe in a general theory of value, with emphasis laid on subjective estimates, and we consider that such a general theory is a *sine qua non* to any science of economics. Our view is not to be condemned as "monistic" rather than "pluralistic" for we recognize the multiplicity of forces, social and individual, which combine to determine subjective estimates. We accept, as a matter of course, the evolutionary point of view, and we feel that our brand of theory has not only not been "reconstructed," but it has not even been considered by Professor Patten.

L. N. ROBINSON: In his address to the American Historical Society, Colonel Roosevelt suggested that historians should make the dead facts of the past live again. It seems to me that Dr. Patten has done this in his monograph, not, however, that future generations might see them in all their strength and vigor but rather with the express purpose of putting them to death again. His revival of natural laws and of funds is an indication of this.

At times, it would appear that Dr. Patten seeks to identify the shares in distribution with the various social classes. I doubt if this

can be done. A share in distribution denotes a means of enforcing a claim to the new wealth. The holders of one of these means may belong to several classes.

In saying that we need a new theory of social progress, I believe that Dr. Patten has called attention to a decided defect in economic theory. Happiness cannot serve as the test. As he says, we evolve through misery as much as through pleasure. To base economic theory on an outworn ethical theory is suicidal.

The monograph is, as previous speakers have said, difficult to interpret on account of a peculiar use of terms. After reading it, one feels the need of securing a new dictionary rather than of reconstructing one's economic theories.

**SUMMARY.**<sup>1</sup> In the discussion which followed, a score or more of speakers took part under the five-minute rule, and many briefer questions were answered by the chairman of the session. There was some expression of agreement with the several leaders of the discussion to the effect that the opening address did not take sufficient account of recent progress in economic thought or give a just impression of the best contemporary economic doctrine. But there was also some opinion that further development is needed along lines suggested in the opening address. An animated debate was elicited by some of the more incidental propositions advanced by Professor Patten, particularly that teachers' incomes are, as to social nature, to be classed with those of the larger capitalists, that insurance by members of the middle class may be a hindrance to progress by relaxing the social motives, and that the extension of social insurance into a general system for all workers may divert from the true road of progress. As Professor Patten's reasons for these views are not set forth at sufficient length in the foregoing summary, it is not well to restate the protests against these views made by a number of speakers. The discussion as a whole was more animated and participated in more generally than any session on economic theory at the Association meetings for many years.

<sup>1</sup> Written on request of the Editor by Frank A. Fetter.